

Risk Assessment and Internal Control

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**Orange County
Public Schools**

Risk

- Risk is the threat that an event, action, or non-action will adversely affect the district's ability to achieve its objectives and execute its strategies successfully.
- Risk is measured in terms of likelihood and consequences.
- A precondition to risk assessment is the establishment of objectives, linked at different levels and internally consistent.

Risk Assessment Process



Risk Considerations

- Evaluate the nature and types of errors and omissions that could occur, i.e., “what can go wrong”
- Significant risks (errors and omissions) that are common in your area or have been experienced in prior years
- Information technology risks (e.g., access, backups, security, data integrity)
- Volume, size, complexity and homogeneity of the individual transactions processed through a given process (students, personnel, etc.)
- Susceptibility to error or omission as well as manipulation or loss
- Robustness versus subjective-ness of the processes for determining significant estimates
- Extent of change (internal/external, systems, key personnel) and its expected effect



Document the outcome of your risk assessment on the Risk Register




OCPS Internal Control Objectives

Successful achievement of the District's mission through:


- Accurate collection, maintenance & reporting of district data
- Safeguarding of assets
- Effective, efficient, and economical programs and operations
- Compliance with laws, regulations, and policies
- Prevention / detection of fraud, waste, and abuse

Florida Statutes 1010.01

- (5) Each school district, Florida College System institution, and state university shall establish and maintain internal controls designed to:
- (a) Prevent and detect fraud, waste, and abuse as defined in s. [11.45\(1\)](#).
 - (b) Promote and encourage compliance with applicable laws, rules, contracts, grant agreements, and best practices.
 - (c) Support economical and efficient operations.
 - (d) Ensure reliability of financial records and reports.
 - (e) Safeguard assets.
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Fraud

Obtaining something of value through willful misrepresentation, including, but not limited to:

- intentional misstatements or intentional omissions of amounts or disclosures in financial statements to deceive users of financial statements
 - theft of an entity's assets
 - bribery
 - the use of one's position for personal enrichment through the deliberate misuse or misapplication of an organization's resources
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Waste

The act of using or expending resources unreasonably, carelessly, extravagantly, or for no useful purpose.



Abuse

Behavior that is deficient or improper when compared with behavior that a prudent person would consider a reasonable and necessary operational practice given the facts and circumstances.

Includes misuse of authority or position for personal gain.



Internal Control Concepts

- Internal control is a process. It's a means to an end, not an end in itself.
- Internal control is effected by people. It's not merely policy manuals and forms, but people at every level of the district.
- Internal control can be expected to provide only reasonable assurance, not absolute assurance, to management and the board.

Internal Control Myths and Facts

MYTHS

Internal control starts with a strong set of policies and procedures.

Internal control: That's why we have internal auditors!

Internal control is a finance thing.

Internal controls are essentially negative, like a list of "thou-shalt-nots."

Internal controls take time away from our core activities in educating children.



FACTS

Internal control starts with a strong control environment.

While internal auditors play a key role in the system of control, management is the primary owner of internal control.


Internal control is integral to every aspect of the district.

Internal control makes the right things happen the first time.


Internal controls should be built "into," not "onto" our processes.

Control Environment


The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include:

- Integrity, ethical values, and competence of the district's people
 - Management's philosophy and operating style
 - Methods by which management assigns authority, responsibility and organizes and develops its people
 - Attention and direction provided by the board
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General Expectations

- Acknowledge your responsibility for the design, implementation and maintenance of the control structure within your business processes
 - Contribute direction to identify, prioritize and review risks and controls
 - Remove obstacles for compliance; remedy control deficiencies
 - Continue or begin a program of self-assessment and testing to monitor the controls within your processes (more to come)
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Action Items

- Educate your personnel about these requirements and this effort (Communication tips follow)
 - Reinforce internal focus on controls within your area
 - Raise any risks, concerns or issues promptly to allow adequate attention for correction (don't wait for an audit!)
 - Fix control gaps as soon as possible
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Communication (1/2)

- All personnel must receive a clear message from top management that control responsibilities must be taken seriously
- They must understand their own role in the internal control system, as well as how individual activities relate to the work of others

Communication (2/2)

- They must have a means of communicating significant information upstream
- There also needs to be effective communication with external parties, such as taxpayers, community members, suppliers, regulators and stakeholders



Coming soon: Control self-assessment





Comments?

Questions?

Discussion?

